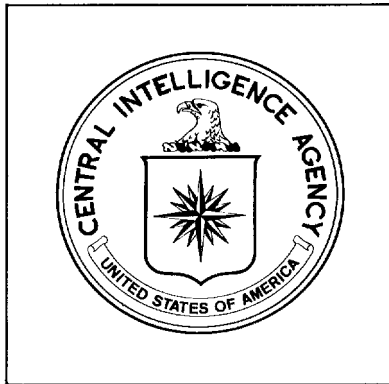


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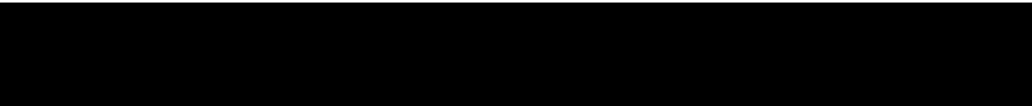
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WESTERN EUROPE -- CANADA -- INTERNATIONAL ORGANIZATIONS

This publication is prepared for regional specialists in the Washington community by the Western Europe Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Echeverria for UN Secretary General

Mexican President Echeverria's interest in the post of UN Secretary General is becoming increasingly obvious.

Kurt Waldheim's term expires in December 1976, and Echeverria's Presidency concludes at the same time. Echeverria apparently recognizes that his candidacy may have tough going. Although he recently claimed that there was a strong current of sympathy in his favor and his credentials as a Third World leader have been bolstered during the past year--primarily as the author of the controversial Charter of Economic Rights and Duties of States--he also admits that it is premature to even discuss the possibility of his candidacy.

Echeverria must gain the approval of the five permanent members of the Security Council--the US, UK, USSR, France and China--any of whom can exercise their veto should the nomination be considered. The Council's "recommendation" must then be approved by the General Assembly.

The Mexican President probably feels that his candidacy is enhanced by the fact that Latin America has never had the Secretary-Generalship. Although the UN customarily adheres to the principle of regional rotation for major posts, his election will probably not remain uncontested. One possible contender, Waldheim, has declined to confirm that he will seek another five year term but it is widely assumed that he will.
(Confidential)

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British Union Leaders Agree to Limit Wage Demands

The decision today by the leaders of the Trades Union Congress to hold weekly wage increases to \$13 during the next year should allow Prime Minister Wilson to avoid imposing statutory wage controls, at least for the present. Wilson still may ask for standby authority to impose controls if the unions do not stick to the agreement when he announces his anti-inflation package later this week.

In return for their agreement, the union leaders have asked the government to deny pay raises to persons earning over roughly \$15,000 and to work diligently to reduce unemployment.

The Congress' decision follows a harsh speech by Chancellor of the Exchequer Healey to the Labor members of parliament, many of whom are opposed to statutory controls. Healey warned that failure to support a 10 percent limit on wage increases would mean a drastic cut in the country's standard of living and force Britain "to crawl to the International Monetary Fund and accept the terms they impose on us." Healey also implied that he wants to have the force of law behind the voluntary policy.

The cabinet today will discuss the anti-inflation proposals submitted by the Congress and the Confederation of British Industry, and will try to iron out any remaining differences over the government's anti-inflation package. Healey claimed several weeks ago that he had complete cabinet backing for his voluntary plan, but some cabinet members may balk over asking for standby authority to impose statutory controls.

The government was heartened earlier this week when the miners opted to "seek" rather than "demand" a weekly pay increase of more than 60 percent. The miners' move, plus the decision today by the British seamen to settle for a wage increase of 37 percent, suggests that even individual unions may cooperate with the government for the present. (Confidential No Foreign Dissem)

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Opposition to Fanfani Growing

Italian Prime Minister Moro may soon withdraw his support from Christian Democratic leader Fanfani, strengthening the possibility that the party's national council will decide on a leadership change when it meets next week.

25X1C [REDACTED] Moro advised Communist Party leader Berlinguer recently that he had loyally supported Fanfani during last week's meeting of the Christian Democratic directorate, but now considers himself free to act independently because Italy is entering a new political phase. Moro, who was responding to a message from Berlinguer, added that he plans to outline his position in a speech to the Christian Democratic national council on July 19.

If Fanfani loses the support of the Moro faction, it will mean that roughly 80 percent of the party hierarchy has broken with the Christian Democratic leader. At the party directorate meeting last week, center and leftist factions--about 70 percent of the party--joined in opposing Fanfani's proposal to delay debate on Christian Democratic leadership and policies until a party congress in the fall. The directorate voted instead to begin such a debate on July 19 at a meeting of the Christian Democratic national council--the party's principal deliberative body.

It is probably only a matter of time before Fanfani resigns or is eased out of the top party post in any event, but a nod from Moro would ensure his departure. Moro's support for his long-time rival was one of the key factors in Fanfani's return

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to the party leadership two years ago. Moro is the party's most prestigious left-of-center leader, and his alliance with Fanfani helped insulate the latter from the growing attacks by left wing Christian Democrats as the party suffered successive defeats in the last two years.

The unprecedented gains by the Communists in the regional and local elections last month were apparently the last straw for leftist factions of the Christian Democratic Party. [REDACTED] they threatened at the directorate meeting last week to break with the party and run separately in the next national elections if their demand for an early review of Christian Democratic policies was not met. That threat probably helped tip the balance against Fanfani in the key center factions which ultimately joined the left in rebuffing Fanfani's proposal to delay debate.

It is not particularly unusual for Moro or other major non-Communist leaders to be in touch with Berlinguer. Many of them exchange views discreetly with the Communists, especially when major political decisions are being made. (Secret No Foreign Dissem/No Dissem Abroad/Background Use Only/Controlled Dissem)

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Demirel's Dilemma

The Turks are continuing to weigh various options for action against US bases and possible policy reassessments in the event the US arms embargo is maintained beyond the July 17 deadline set by Prime Minister Demirel.

So far there has been no official Turkish reaction to the possibility of a compromise arrangement by which the ban on arms sales to Turkey would be lifted while the halt in grant aid would remain in effect. Demirel indicated to US embassy officials on July 2, however, that the ban on delivery of armaments already purchased and the cutoff in the flow of spare parts were by far the most serious aspects of the embargo.

Demirel and the Turkish General Staff have been casting about for an appropriate response to make on July 17, however, and may see such a compromise as a way out of the dilemma they created for themselves with the establishment of the deadline. Faced with hard realities, the Turks now see clearly that there is no viable alternative source of armaments and are searching for a response that will satisfy the political necessity for a tough response, but will not preclude reinstatement of US military assistance at some future date.

25X1C [REDACTED] Demirel has backed off from his earlier decision to demand a halt in operations at most US facilities when they enter the provisional status referred to in the Turkish note of last month. Demirel and the general staff are now leaning toward a more piecemeal approach, but reportedly have not been able to agree on which bases should be the first affected.

25X1C An indication of the desperation now being felt in top Turkish policy-making levels, is a report [REDACTED] that Demirel fears a

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sharp swing to the left in Turkey if the embargo is continued and sees the possibility of an arms agreement with the Soviet Union as becoming more likely. The ministry of defense has gone so far as to institute a study of the consequences of abandoning Turkey's move toward [REDACTED]

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Gentlemen's Disagreement

The EC has rejected the latest US offer in negotiations with the US and Japan on a "gentlemen's agreement" that would establish guidelines for granting credit to purchasers of their exports. EC officials cancelled a July 7 meeting of the EC export credit working group in Brussels and informed Washington that the community does not intend to discuss the issue further until the US makes a new offer.

An EC Commission official said the US counter-proposal--which would have modified an earlier EC proposal and provided for longer credit terms in certain cases--represented a backward step and returned the talks to where they began 18 months ago. The official added that the EC is united against the US offer and that there is now little chance of persuading the EC to exert pressure on France to take a more flexible position, especially on minimum interest rates. The US has been seeking to raise the minimum interest rate level and extend limits on maturity of credits, while the EC--with Paris in the vanguard--has sought the opposite.

The Community may in fact be using the rejection of the US counter-proposal as a means to give a pause to the negotiations rather than to break them off completely. (Confidential No Foreign Dissem)

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Schmidt on Europe - North and South

Chancellor Schmidt, during his first year in office, has established himself as the spokesman for those Europeans acutely concerned about Western Europe's ability to overcome such problems as the economic crisis generated by the high cost of petroleum and the political instability in the Southern flank of NATO. These concerns have not abated.

Schmidt's pessimism is tempered by his confidence in the political and economic calm prevailing in West Germany and its immediate neighbors. This "solid core" includes the Benelux countries, Switzerland, Austria, and Sweden--countries which Schmidt believes are pursuing "responsible" economic policies and are not threatened by political instability.

In Schmidt's view, the cooperation of these countries in the monetary field reflects their willingness to coordinate exchange-rate policies--a necessary element in broader economic cooperation. He has, however, expressed strong doubts that London or Rome can participate fully in these cooperative efforts given the serious economic problems facing these governments.

The Chancellor is extremely concerned over the deteriorating economic situation in Great Britain. He doubts that Britain's political and industrial leaders can stabilize

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the situation and, therefore, Schmidt will not prevent the Wilson government from using the European Community's projected common borrowing facility.

He views the Algerian demand for a large oil price increase this fall as a direct threat to Europe because this would undermine any hope of economic recovery in Britain and Western Europe in general. Schmidt fears that the Algerians are increasing their influence in OPEC and may succeed in convincing Iran and Saudi Arabia to support a hard line toward the oil consumers. A senior Foreign Ministry official, under Schmidt's instructions, will visit Tehran and Riyadh in the near future to determine the firmness of their support for the Algerian position.

Political developments in Southern Europe are no less urgent in Schmidt's view. He expects a slight upswing in the Italian economy later this year, but he is reported to be taken aback by the extent of corruption in the Christian Democratic Party and believes that eventually the Communists will have to be brought into the government. Schmidt anticipates that the Italian Communists will then be in a good position to work for a "popular front."

Despite Italy's problems, Schmidt nevertheless believes that Portugal and Cyprus are a more serious challenge to NATO and the unity of the alliance. He believes that Archbishop Makarios and Turkish opposition leader Ecevit are the main obstacles to a peaceful solution on the island. The Chancellor stated that he has failed to

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persuade Ecevit to take a more moderate line and to allow the Demirel government to reach an agreement with Greek Prime Minister Karamanlis, whom Schmidt believes is ready to compromise.

In public, the Chancellor has played down the threat to NATO posed by the military government in Lisbon but he is deeply concerned that the well-organized Communists have the tacit support of Prime Minister Goncalves. He believes that efforts must be made to persuade Communist leader Cunhal to adopt a relatively moderate course of action similar to the French and Italian Communist parties.

The Chancellor has instructed German officials to keep open lines of communication to the Portuguese leadership. He recently informed [REDACTED]

[REDACTED] that West Germany is prepared to provide economic aid if the government is not controlled by the Communists. German officials have warned Lisbon that foreign investment will evaporate if a dictatorial form of government is established. (Secret No Foreign Dissem/No Dissem Abroad/Background Use Only/Controlled Dissem)

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